

VILLAGE OF KALKASKA, MICHIGAN
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

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Independent Auditor's Report

Members of the Village Council
Village of Kalkaska
Kalkaska, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Kalkaska management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the report of other auditors, provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2008 on our consideration of the Village of Kalkaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Village of Kalkaska
Independent Auditor's Report

The managements discussion and analysis and required budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally if inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kalkaska's, basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants
August 15, 2008

This section of Village of Kalkaska's annual financial report presents its discussion and analysis of the Village's financial performance during the year ending February 29, 2008. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

Financial Highlights

- The Village of Kalkaska's budgeted funds in five of its seven funds ended the year within budget. The General Fund, the Local Street Fund and the DDA Fund were over budget by \$150,889, \$16,977 and \$92,072, respectively.
- Total expenses for the governmental activities totaled \$1.26 million. Total expenses for the business-type activities totaled \$1.20 million.
- The year end fund balance for the General Fund was a negative \$(279,651). This is due in large part to the Village purchasing its new office location without financing the purchase over time.
- The Water and Sewer Funds both show a slight improvement in financial condition over the previous year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Village of Kalkaska's basic financial statements. Village of Kalkaska's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Village of Kalkaska's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Village of Kalkaska's assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Village of Kalkaska is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of Village of Kalkaska that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Village of Kalkaska include general government, public safety, health and welfare, recreation and culture and other services. The business-type activities of Village of Kalkaska include public and regional transportation, commissary inmate trust and purchasing of delinquent taxes.

The government-wide financial statements include not only Village of Kalkaska itself (known as the primary government), but also the legally separate Downtown Development Authority for which Village of Kalkaska is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Village of Kalkaska, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Village of Kalkaska can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments' near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Village of Kalkaska maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, major street fund, local street fund and debt service fund, each of which are considered to be major funds. Data from the other 3 governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Village of Kalkaska adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general and special revenue funds to demonstrate compliance with this budget.

Proprietary funds. Village of Kalkaska maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Village of Kalkaska uses enterprise funds to account for its Water and Sewer Funds

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise funds, all of which are considered to be major funds of Village of Kalkaska.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Village of Kalkaska's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Village of Kalkaska
Management's Discussion and Analysis
February 29, 2008

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Kalkaska, assets exceeded liabilities by \$7,075,653 and \$6,944,684 as of February 29, 2008 and 2007.

A large portion of Village of Kalkaska's net assets is its investment in capital assets, less any debt to acquire those assets that is still outstanding. Village of Kalkaska uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although Village of Kalkaska's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF KALKASKA
NET ASSETS
FEBRUARY 29, 2008 AND 2007

	2008			2007		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 584,175	\$ 1,276,145	\$ 1,860,320	\$ 781,567	\$ 1,309,253	\$ 2,090,820
Capital assets	1,534,436	10,070,776	11,605,209	1,481,754	10,149,148	11,630,902
Total assets	<u>\$ 2,118,611</u>	<u>\$ 11,346,323</u>	<u>\$ 13,464,934</u>	<u>\$ 2,263,321</u>	<u>\$ 11,458,401</u>	<u>\$ 13,721,722</u>
Long-term liabilities outstanding	\$ 253,853	\$ 5,772,525	\$ 6,026,378	\$ 367,412	\$ 5,924,573	\$ 6,291,985
Other liabilities	80,533	282,370	362,903	68,284	416,768	485,052
Total liabilities	<u>334,386</u>	<u>6,054,895</u>	<u>6,389,281</u>	<u>435,697</u>	<u>6,341,341</u>	<u>6,557,207</u>
Net assets:						
Invested in capital assets, net of related debt	1,431,391	3,782,716	5,214,107	1,352,518	3,582,916	4,935,434
Unrestricted	<u>352,834</u>	<u>1,508,712</u>	<u>1,861,546</u>	<u>475,106</u>	<u>1,534,144</u>	<u>2,009,250</u>
Total net assets	<u>1,784,225</u>	<u>5,291,428</u>	<u>7,075,653</u>	<u>1,827,624</u>	<u>5,117,060</u>	<u>6,944,684</u>
Total liabilities and net assets	<u>\$ 2,118,611</u>	<u>\$ 11,346,323</u>	<u>\$ 13,464,934</u>	<u>\$ 2,263,321</u>	<u>\$ 11,458,401</u>	<u>\$ 13,721,722</u>

The Village's net assets decreased by \$256,788 during the 2007-2008 fiscal year. This was due primarily to increased costs of energy and fuel, increased costs of employee health insurance, and a decrease in the amount of property taxes received by the Village. This scenario is not expected to change in the near future, so the Village will need to aggressively explore ways to decrease costs and increase revenues.

Village of Kalkaska
Management's Discussion and Analysis
February 29, 2008

VILLAGE OF KALKASKA
CHANGES IN NET ASSETS
FOR THE YEAR ENDED FEBRUARY 29, 2008 AND 2007

	2008			2007		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 54,309	\$ 1,171,969	\$ 1,226,278	\$ 101,108	\$ 1,154,629	\$ 1,255,737
Operating grants and contributions	202,641	126,685	329,326	271,831		271,831
Capital grants and contributions					507,258	507,258
General revenues:						
Property taxes	667,304		667,304	644,007		644,007
State shared revenues	187,476		187,476	189,993		189,993
Investment earnings	24,677	47,721	72,398	51,561	15,047	66,608
Miscellaneous revenues	81,714	30,179	111,893	99,201	11,191	110,392
Gain on sale of assets				77,592		77,592
Total revenues	1,218,121	1,376,554	2,594,675	1,435,293	1,688,125	3,123,418
Expenses:						
Governmental activities:						
Judicial	76,543		76,543	63,267		63,267
General government	147,495		147,495	175,215		175,215
Public safety	517,525		517,525	550,553		550,553
Public works	343,179		343,179	329,567		329,567
Recreation	85,372		85,372	22,559		22,559
Other	85,024		85,024	78,796		78,796
Interest on long-term debt	6,382		6,382	7,825		7,825
Water fund		400,793	400,793		339,648	339,648
Sewer fund		801,393	801,393		863,475	863,475
Total expenses	1,261,520	1,202,186	2,463,706	1,227,782	1,203,123	2,430,905
Increase in net assets before transfers	(43,399)	174,368	130,969	207,511	485,002	692,513
Transfers in (out)				443	(16,000)	(15,557)
Increase (decrease) in net assets	(43,399)	174,368	130,969	207,954	469,002	676,956
Net assets, beginning	1,827,624	5,117,060	6,944,684	1,619,670	4,648,058	6,267,728
Net assets, ending	\$ 1,784,225	\$ 5,291,428	\$ 7,075,653	\$ 1,827,624	\$ 5,117,060	\$ 6,944,684

Financial Analysis of the Government's Funds

As noted earlier, Village of Kalkaska uses fund accounting to insure and demonstrate compliance with finance-related requirements.

Governmental funds. The focus of Village of Kalkaska's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Village of Kalkaska's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of February 29, 2008, Village of Kalkaska's governmental funds reported combined ending fund balances of \$316,360. Approximately 95% of this total constitutes unreserved fund balance, which is available for spending at Village of Kalkaska's discretion. The remainder of the fund balance is reserved for specific commitments.

The general fund is the chief operating fund of Village of Kalkaska. As of February 29, 2008, unreserved fund balance of the general fund was \$(279,651). This negative fund balance was the result of purchasing a new office building for the Village offices in the year ended February 29, 2006.

The fund balance of Village of Kalkaska's general fund decreased by \$82,034 during the current fiscal year. Key factors in this increase are as follows:

This was due primarily to increased costs of energy and fuel, increased costs of employee health insurance, and a decrease in the amount of property taxes received by the Village. This scenario is not expected to change in the near future, so the Village will need to aggressively explore ways to decrease costs and increase revenues.

Proprietary funds. Village of Kalkaska's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at February 29, 2008 were \$1,508,712.

General Fund Budgetary Highlights

The fiscal year ending February 29, 2008 was a relatively quiet one for the Village. Our anticipated tax revenues were increased through a budget amendment by \$83,520. However, tax increment financing (TIF) captured amounts were not taken into consideration when making this budget amendment, the end result being an unfavorable variance of \$(107,887) in this revenue line item.

Through another budget amendment, State Grants (Revenue Sharing) was decreased by \$27,880 to reflect anticipated decreases in State Revenue Sharing. We received even less in State Revenue Sharing than the reduced amount.

The Village had a fairly large project, the KART trail, in which the Village acted as the grant administrator. In this fiscal year we paid the bills for this project with grant dollars that we received in the prior fiscal year, so our recreation expenses were much higher this year than last year.

General Fund Budgetary Highlights - continued

We have tried to reduce expenses in the General Fund by eliminating some positions, such as the part time Code Enforcement Officer and a part time Administrative Staff person.

The Village experienced an almost 17% increase in hospitalization insurance premiums, and plans to look at ways of reducing our costs in this area.

Capital Asset and Debt Administration

Capital assets. Village of Kalkaska's investment in capital assets for its governmental and business type activities as of February 29, 2008, amounts to \$11,320,479 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

The Village completed an improvement to the sewer pump station for \$202,839, purchased two vehicles for the DPW for \$45,452, and completed parking lot and sidewalk improvements for \$92,763.

Long-term debt. At February 29, 2008, Village of Kalkaska had total bonded debt outstanding of \$5,969,000 and notes payable of \$131,892.

Major debt transactions during the current fiscal year included the following:

The Village earned credits equal to \$103,175 on the loan to the Michigan Economic Development Corporation for the creating on jobs in the Village. The Village made principle payment on bonds of \$143,000.

Economic Factors and Next Years Budgets and Rates

The 2008-09 initially adopted budget showed a decrease of \$318,935 from the 2007-2008 fiscal year. This was due to the completion of several large projects in the previous fiscal year. It is anticipated that State Revenue sharing dollars that are distributed to cities and villages will increase slightly in the next year or two, but any increase here will probably be offset by declining property tax values. The Village needs to sharply curtail spending and seek new revenue sources in anticipation of future steep increases in energy, fuel and hospitalization insurance premiums.

Requests for Information

This financial report is designed to provide a general overview of Village of Kalkaska's finances for all those with an interest in the government's finances. Questions concerning any of the financial information should be addressed to the Village Manager, 200 Hyde Street, Kalkaska, MI 49646.

FINANCIAL SECTION

VILLAGE OF KALKASKA
STATEMENT OF NET ASSETS
FEBRUARY 29, 2008

	Governmental Activities	Business-type Activities	Total	Component Unit Downtown Development Authority
ASSETS				
Cash	\$ 451,005	\$ 945,903	\$ 1,396,908	\$ 458,375
Taxes receivable	1,548		1,548	212
Accounts receivable	802	79,766	80,568	
Due from other governmental units	8,876		8,876	56,208
Due from State	102,831		102,831	
Inventories of supplies	2,263	10,784	13,047	
Prepaid expenses	16,850	15,313	32,163	
Restricted assets – cash		223,784	223,784	
Total Current Assets	584,175	1,276,145	1,860,320	514,795
Capital asset, net of accumulated depreciation	1,534,436	9,786,043	11,320,479	383,713
Construction in progress		31,330	31,330	
Due from other funds		253,400	253,400	
TOTAL ASSETS	\$ 2,118,611	\$ 11,346,323	\$ 13,464,934	\$ 898,508
LIABILITIES:				
Accounts payable	\$ 37,199	\$ 7,324	\$ 44,523	\$ 603
Checks written in excess of deposits	7,182		7,182	
Current portion of bonds and notes payable	26,191	125,000	151,191	
Accrued liabilities	9,611	44,244	53,855	
Due to other governmental units	350		350	
Notes payable		105,802	105,802	
TOTAL LIABILITIES	80,533	282,370	362,903	603
Non-current liabilities				
Bonds and notes payable	76,854	5,754,000	5,830,854	
Capital lease payable		18,525	18,525	
Accrued sick and vacation	39,178		39,178	
Due to other funds	137,821		137,821	
TOTAL NON-CURRENT LIABILITIES	253,853	5,772,525	6,026,378	
NET ASSETS:				
Invested in capital assets, net of related debt	1,431,391	3,782,716	5,214,107	383,713
Net assets:				
Unreserved	352,834	1,508,712	1,861,546	514,192
TOTAL FUND EQUITY	1,784,225	5,291,428	7,075,653	897,905
TOTAL LIABILITIES & NET ASSETS	\$ 2,118,611	\$ 11,346,323	\$ 13,464,934	\$ 898,508

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2008**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Legislative	\$ 76,543	\$	\$	\$
General government	147,495	14,266		
Public safety	517,525	14,553	1,148	
Public works	343,179	21,972	201,493	
Recreation	85,372	3,518		
Other	85,024			
Interest on long term debt	6,382			
Total governmental activities	1,261,520	54,309	202,641	
Business-type activities:				
Water fund	400,793	418,122	57,902	
Sewer fund	801,393	753,847	68,783	
Total business-type activities	1,202,186	1,171,969	126,685	
Total primary government	\$ 2,463,706	\$ 1,226,278	\$ 329,326	\$
Component units:				
Downtown Development Authority	\$ 23,176	\$	\$	\$ 239,214

General Revenues:

Property Taxes – general purposes
Property Taxes – debt
State Shared Revenue
Unrestricted investment earnings
Rents
Miscellaneous revenues
Gain on sale of fixed assets
Transfers

Total general revenues and transfers

Change in net assets

Net assets – beginning

Net assets – ending

The accompanying notes are an integral part of these statements.

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (76,543)	\$	\$ (76,543)	\$
(133,229)		(133,229)	
(501,824)		(501,824)	
(119,714)		(119,714)	
(81,854)		(81,854)	
(85,024)		(85,024)	
(6,382)		(6,382)	
(1,004,570)		(1,004,570)	
	75,231	75,231	
	21,237	21,237	
	96,468	96,468	
\$ (1,004,570)	\$ 96,468	\$ (908,102)	\$
\$	\$	\$	\$ 216,038
647,241		647,241	140,317
20,063		20,063	
187,476		187,476	
24,677	47,721	72,398	9,703
23,101		23,101	
58,613	30,179	88,792	255
961,171	77,900	1,039,071	150,275
(43,399)	174,368	130,969	366,313
1,827,624	5,117,060	6,944,684	531,592
\$ 1,784,225	\$ 5,291,428	\$ 7,075,653	\$ 897,905

**VILLAGE OF KALKASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
FEBRUARY 29 2008**

	General Fund	Major Street	Local Street	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash	\$ 85,596	\$ 200,913	\$ 65,288	\$	\$ 28,966	\$ 380,763
Receivables:						
Taxes	1,252		296			1,548
Due from:						
Other governmental units				8,876		8,876
State	58,985	32,897	10,949			102,831
Other funds	115,830	153,640	101,760	645	346	372,221
Employees	282					282
Other					520	520
Inventory of supplies	2,263					2,263
Prepaid expenses	8,794	875				9,669
TOTAL ASSETS	<u>\$ 273,002</u>	<u>\$ 388,325</u>	<u>\$ 178,293</u>	<u>\$ 9,521</u>	<u>\$ 29,832</u>	<u>\$ 878,973</u>
LIABILITIES & FUND EQUITY						
LIABILITIES:						
Accounts payable	\$ 35,700	\$	\$ 257	\$	\$	\$ 35,957
Checks written in excess of deposits				7,182		7,182
Accrued liabilities	7,206	1,082	794			9,082
Due to other funds	509,397		645			510,042
Due to other governmental units	350					350
TOTAL LIABILITIES	<u>552,653</u>	<u>1,082</u>	<u>1,696</u>	<u>7,182</u>		<u>562,613</u>
FUND EQUITY:						
Fund balances:						
Reserved for inventory	2,263					2,263
Reserved for debt service				2,339		2,339
Reserved for prepaid expenses	8,794	875				9,669
Unreserved:						
Undesignated	(290,708)	386,368	176,597		29,832	302,089
TOTAL FUND EQUITY	<u>(279,651)</u>	<u>387,243</u>	<u>176,597</u>	<u>2,339</u>	<u>29,832</u>	<u>316,360</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 273,002</u>	<u>\$ 388,325</u>	<u>\$ 178,293</u>	<u>\$ 9,521</u>	<u>\$ 29,832</u>	<u>\$ 878,973</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF KALKASKA
RECONCILIATION OF TOTAL GOVERNMENT FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
FEBRUARY 29, 2008

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balances	\$ 316,360
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Capital assets	2,880,533
Accumulated depreciation	(1,346,097)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	75,652
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Notes payable	(90,000)
Bonds payable	(13,045)
Accrued sick and vacation pay	(39,178)
Net Assets of Governmental Activities	<u>\$ 1,784,225</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	General Fund	Major Street	Local Street	Debt Service	Other Governmental Funds	Total
REVENUES:						
Taxes	\$ 606,933	\$	\$ 40,308	\$ 20,063	\$	\$ 667,304
Licenses and permits	1,925					1,925
State grants	187,476	149,074	52,419		1,148	390,117
Contributions from local units	5,900					5,900
Charges for services	14,266	6,942				21,208
Fines	11,122				180	11,302
Interest, rents, royalties	91,684	5,582	4,425			101,691
Other						
TOTAL REVENUES	<u>919,306</u>	<u>161,598</u>	<u>97,152</u>	<u>20,063</u>	<u>1,328</u>	<u>1,199,447</u>
EXPENDITURES:						
Current:						
Legislative	74,788					74,788
General government	138,578					138,578
Public safety	499,240				2,130	501,370
Public works	93,267	164,640	116,752			374,659
Recreation	84,758					84,758
Other	103,758					103,758
Debt service:						
Principal	6,191			20,000		26,191
Interest	760			5,622		6,382
TOTAL EXPENDITURES	<u>1,001,340</u>	<u>164,640</u>	<u>116,752</u>	<u>25,622</u>	<u>2,130</u>	<u>1,310,484</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(82,034)</u>	<u>(3,042)</u>	<u>(19,600)</u>	<u>(5,559)</u>	<u>(802)</u>	<u>(111,037)</u>
OTHER FINANCING SOURCES (USES):						
Sale of village property						
Operating transfers in (out)						
TOTAL OTHER FINANCING SOURCES (USES)						
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER FINANCIAL USES	<u>(82,034)</u>	<u>(3,042)</u>	<u>(19,600)</u>	<u>(5,559)</u>	<u>(802)</u>	<u>(111,037)</u>
FUND BALANCE, beginning	<u>(197,617)</u>	<u>390,285</u>	<u>196,197</u>	<u>7,898</u>	<u>30,634</u>	<u>427,397</u>
FUND BALANCE, ending	<u>\$ (279,651)</u>	<u>\$ 387,243</u>	<u>\$ 176,597</u>	<u>\$ 2,339</u>	<u>\$ 29,832</u>	<u>\$ 316,360</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF KALKASKA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2008

Amounts reported for governmental activities in the statement of net assets are different because:

Net change in fund balance – total governmental funds	\$ (111,037)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay recorded as a capital expense	102,063
Depreciation recorded as an expense	(66,582)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with Governmental activities	(4,505)
Repayment of bond and note principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	26,191
Governmental funds measure termination benefits when paid, in the statement of activities these benefits are measured on a yearly basis.	10,471
Change in net assets of governmental activities	\$ (43,399)

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FEBRUARY 29, 2008**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
ASSETS				
Cash	\$ 233,357	\$ 712,546	\$ 945,903	\$ 70,242
Accounts receivable	25,051	54,715	79,766	
Due from other funds		253,400	253,400	
Inventory of supplies	10,152	632	10,784	
Prepaid expenses	875	14,438	15,313	7,181
Restricted Assets:				
Cash	108,588	115,196	223,784	
Land		87,934	87,934	
Buildings		62,661	62,661	
Construction work in progress		31,330	31,330	
Improvements other than buildings	4,369,622	8,503,301	12,872,923	
Machinery and equipment	35,827	173,061	208,888	539,012
Accumulated depreciation	(1,410,852)	(2,035,511)	(3,446,363)	(383,467)
TOTAL ASSETS	<u>\$ 3,372,620</u>	<u>\$ 7,973,703</u>	<u>\$ 11,346,323</u>	<u>\$ 232,968</u>
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Accounts payable	\$ 4,191	\$ 3,133	\$ 7,324	\$ 1,242
Accrued liabilities	4,894	39,350	44,244	529
Due to other funds				
Notes payable	27,808	77,994	105,802	
Capital lease payable		18,525	18,525	
Bonds payable – short term	39,600	85,400	125,000	
Revenue bonds payable	325,200	5,428,800	5,754,000	
TOTAL LIABILITIES	<u>401,693</u>	<u>5,653,202</u>	<u>6,054,895</u>	<u>1,771</u>
NET ASSETS:				
Invested in capital assets – net of related debt	2,601,989	1,180,727	3,782,716	155,545
Restricted for debt service	108,588	115,196	223,784	
Unrestricted	260,350	1,024,578	1,284,928	75,652
TOTAL NET ASSETS	<u>2,970,927</u>	<u>2,320,501</u>	<u>5,291,428</u>	<u>231,197</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 3,372,620</u>	<u>\$ 7,973,703</u>	<u>\$ 11,346,323</u>	<u>\$ 232,968</u>

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
OPERATING REVENUES:				
Charges for services	\$ 418,122	\$ 753,847	\$ 1,171,969	\$ 125,699
Interest	12,823	34,898	47,721	3,644
 TOTAL OPERATING REVENUES	 430,945	 788,745	 1,219,690	 129,343
OPERATING EXPENSES				
Personal services	160,339	93,969	254,308	41,178
Contractual services	59,020	240,554	299,574	9,173
Supplies	3,566	2,445	6,011	23,205
Materials	15,345	3,905	19,250	
Heat, light, and maintenance	26,619	6,269	32,888	
Repairs and maintenance	3,476	17,881	21,357	27,501
Equipment rental	14,232		14,232	
Depreciation	98,455	177,197	275,652	32,791
 TOTAL OPERATING EXPENSES	 381,052	 542,220	 923,272	 133,848
 OPERATING INCOME (LOSS)	 49,893	 246,525	 296,418	 (4,505)
NON-OPERATING INCOME (EXPENSES):				
Interest and fiscal charges	(19,741)	(259,173)	(278,914)	
Grant revenue	57,902	68,783	126,685	
Other revenue	9,730	20,449	30,179	
Transfers to other funds				
 TOTAL NON-OPERATING INCOME (EXPENSES)	 47,891	 (169,941)	 (122,050)	 (4,505)
 CHANGE IN NET ASSETS	 97,784	 76,584	 174,368	 (4,505)
NET ASSETS, beginning	2,873,143	2,243,917	5,117,060	235,702
NET ASSETS, ending	\$ 2,970,927	\$ 2,320,501	\$ 5,291,428	\$ 231,197

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
Cash Flows From Operating Activities:				
Other revenues and grants	\$ 9,730	\$ 20,449	\$ 30,179	\$
Cash received from customers	415,577	775,106	1,190,683	125,699
Cash paid to suppliers and employees	(289,023)	(370,816)	(659,839)	(103,127)
Net Cash Provided By Operating Activities	136,284	424,739	561,023	22,572
Cash Flows From Capital And Related Financing Activities:				
Principal paid on long-term debt	(76,175)	(196,700)	(272,875)	
Principal received on long-term debt				
Capital Grants	57,902	68,784	126,686	
Interest paid on long-term debt	(19,741)	(259,173)	(278,914)	
Acquisition of plant	(1,428)	(201,151)	(202,579)	(49,991)
Increase in restricted cash – bond covenant	(5,322)		(5,322)	
Transfers to other funds				
Net Cash (Used In) Capital And Related Financing Activities	(44,764)	(588,240)	(633,004)	(49,991)
Cash Flows From Investing Activities:				
Interest on investments	12,823	34,898	47,721	3,644
Net Cash Provided By Investing Activities	12,823	34,898	47,721	3,644
Net Increase (Decrease) in Cash & Cash Equivalents	104,343	(128,603)	(24,260)	(23,775)
Cash & Cash Equivalents, beginning	129,014	841,149	970,163	94,017
Cash & Cash Equivalents, ending	\$ 233,357	\$ 712,546	\$ 945,903	\$ 70,242

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008
(Continued)**

	<u>Business-type Activities – Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of Net Operating Income to Net Cash				
Provided By Operating Activities:				
Net Operating Income (Loss)	\$ 49,893	\$ 246,525	\$ 296,418	\$ (4,505)
Adjustments to Reconcile Net Operating Income to Net				
Cash Provided by Operating Activities:				
Depreciation	98,455	177,197	275,652	32,791
Other revenue and grants	9,730	20,449	30,179	
Decrease (increase) in:				
Receivables	(2,545)	21,259	18,714	
Inventories	(4,892)	2,121	(2,771)	
Prepaid expenses	2,772	1,350	4,122	(1,931)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(4,306)	(9,264)	(13,570)	(139)
Interest Income classified as an investing activity	<u>(12,823)</u>	<u>(34,898)</u>	<u>(47,721)</u>	<u>(3,644)</u>
Net Cash Provided By Operating Activities	<u>\$ 136,284</u>	<u>\$ 424,739</u>	<u>\$ 561,023</u>	<u>\$ 22,572</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
FEBRUARY 29, 2008**

	<u>Post Retirement Benefit Fund</u>
ASSETS	
Cash	\$ 398,060
Amounts to be provided by other funds	
	<u> </u>
TOTAL ASSETS	<u><u>\$ 398,060</u></u>
LIABILITIES	
Due to other funds	\$ 115,580
Amount provided by other funds for retiree insurance	<u>282,480</u>
	<u> </u>
TOTAL LIABILITIES	<u><u>\$ 398,060</u></u>

The accompanying notes are an integral part of these statements.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The accounting policies of the Village of Kalkaska (Village) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies by the Village.

B. Reporting Entity

The Village of Kalkaska was incorporated in 1887 and covers an area of approximately two square miles. The Village operates under an elected Council (7 members) and provides services to its more than 2,552 residents in many areas including law enforcement, street development and maintenance, parks and sewer and water services.

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Village's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Village and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Village and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, no required organizations have been omitted from these financial statements.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund.

The *major street fund* accounts for the maintenance and construction of the major street system.

The *local street fund* accounts for the maintenance and construction of the local street system.

The *debt service fund* reports the activities of Downtown Development Authority Bonds which the Village has a legal responsibility for repayment.

The government reports the following major proprietary funds:

The *Water fund* accounts for the revenue and expenses of operating the Village's water distribution system.

The *Sewer fund* accounts for the revenue and expenses of operating the Village's sewer collection system.

Additionally, the government reports the following fund types:

The *internal service fund* is established for the financing of goods and services provided by one department to other departments of the Village on a cost reimbursement basis. The Village's Equipment Fund is an Internal Service Fund.

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has not elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the governments enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgets

Annual operating budgets are adopted by the Village Council for the General, Special Revenue and Debt Service Funds in accordance with Public Act 621 of 1978.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. At the first meeting in February, the Village Manager submits to the Village Council a proposed operating budget for the year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
- b. Public hearings are conducted at the Village Offices to obtain taxpayer comments.
- c. Prior to February 29, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
- d. The President or their designee is authorized to transfer budgeted amounts within departmental appropriation accounts, however, any revisions that alter the total expenditures of any department must be approved by the Village Council.
- e. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
- f. Budget appropriations lapse at year end.
- g. The original budget was amended during the year in compliance with the Village procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the amended budgetary expenditures of the Village Council.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Encumbrance System

The Village does not use an encumbrance system.

G. Assets and Liabilities

1. Cash and investments

Michigan Compiled Laws, Section 129.91, authorizes the Village of Kalkaska to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council Board has designated one bank for the deposit of Village funds.

The Village's deposits and investments are in accordance with statutory authority.

2. Accounts Receivable

It is the Village's policy to place delinquent sewer and water bills on the tax rolls on an annual basis.

3. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

4. Utility Plant In Service and Depreciation

Utility plant in service of the Enterprise Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

5. Internal Service Fund Equipment and Depreciation

Equipment in service of the Internal Service Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. Assets and Liabilities

6. Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Donated fixed assets are stated at their fair market value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The accounting and financial reporting treatment of a funds is determined by its measurement focus. General capital assets are long-lived assets of the Village as a whole. Infrastructure such as streets, traffic signals and signs will be capitalized on a prospective basis. The valuation basis for the general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement costs.

Proprietary fund fixed assets are recorded in the respective funds and depreciated using the straight-line method.

Estimated useful lives, in years, for depreciable assets are as follows:

Lift Station	10
Water System	20 – 50
Sewer	25 – 50
Furniture, fixtures, & equipment	5 – 40
Buildings	45
Infrastructure	50
Vehicles	10

7. Capitalization of Interest on Fixed Assets

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. As of February 29, 2008, no interest has been capitalized.

H. Allowance for Doubtful Accounts

The Village does not use an allowance for doubtful accounts. Any uncollected amount is included in the residents tax billing.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Accumulated Unpaid Sick Pay Benefit Amounts

The Village maintains a policy providing sick pay benefits for its employees. Accrued sick pay is being reported in the Trust and Agency Fund. Annually, the operating funds of the Village will fund any change in this liability.

J. Fund Balance Reserve

The Fund Balance Reserve, in the fund basis statements, reflects an offset for inventories and prepaid expenses. Under the modified accrual basis of accounting when inventories and prepaid expenses are reported on the financial statements, they are to be equally offset by a fund balance reserve account. This indicates that even though inventories and prepaid expenses are a component of net current assets, they do not represent an "available spendable resource." The fund balance reserves for the various restricted assets indicates that these restricted assets, reported on the financial statements, are designated by the Village Council for a specific use and, therefore, are not an "available spendable resource."

K. Retained Earnings Reserve

Retained earnings reserve for restricted assets represent funds or resources that have also been designated by the Village Council for a particular use.

L. Post Retirement Benefits

The Village has entered into an arrangement with its employees by which medical benefits will be provided to the employees after retirement. All of the full-time Village employees are eligible to participate and are participating in the plan. The Village is setting aside funds in a Trust and Agency Fund annually to provide monies for this future cost. As of February 29, 2008, there were five employees and two spouses of former employees eligible under the plan. The estimated liability to the Village had not been calculated. Funds available in the Trust and Agency Fund are \$398,060 as of February 29, 2008.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statement, the Village's actual expenditures and budget expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended February 29, 2008, the Village incurred expenditures in the General, Local Street and Downtown Development Authority funds, which were in excess of the amounts appropriated as follows:

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund:			
Recreation	\$ 24,844	\$ 84,758	\$ 59,914
Local Street Fund			
Winter Maintenance	36,903	38,249	1,346
Downtown Development Authority			
Administration	73,233	406,889	333,656

Deficit fund equity

The following funds have a deficit fund balance as of February 29, 2008:

General Fund \$279,651

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS

A. Assets

1. Deposits and Investments

At year end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash	\$ 451,005	\$ 945,903	\$ 398,060	\$ 1,794,968	\$ 458,375
Cash - restricted		223,784		223,784	
Checks written in excess of deposits	(7,182)			(7,182)	
Total Deposits	<u>\$ 443,823</u>	<u>\$ 1,169,687</u>	<u>\$ 398,060</u>	<u>\$ 2,011,570</u>	<u>\$ 458,375</u>

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

1. Deposits and Investments - Continued

Cash and deposits are recorded in the financial statements as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits	\$ 1,175,320	\$ 458,375
Certificates of deposit	<u>828,373</u>	<u></u>
Total cash and deposits	<u>\$ 2,003,693</u>	<u>\$ 458,375</u>

At year-end, the carrying amount of the Village's deposits were \$1,641,572 and the bank balance was \$1,633,695 of which \$200,000 was covered by federal depository insurance and \$1,433,695 was uninsured and uncollateralized. The component units deposits are pooled with the primary government to maximize investment earnings.

Interest Rate Risk – The Village of Kalkaska will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by: 1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; 2) Investing operating funds primarily in shorter term securities, money market mutual funds, or similar pools.

Credit Risk - State statutes authorize the Village to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Village is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The Village's Investment Policy does not further limit its investment choices.

Concentration of Credit Risk – The Village places no limit on the amount it may invest in any one issuer.

Restricted cash in the Enterprise Fund in the amount of \$223,784 represents cash restricted to meet bond covenants and future asset purchases.

For purposes of the statement of cash flows, the Village considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

2. Property Taxes Receivable and Property Tax Calendar

	Mills	Adjusted Levy	Captured By TIF	Collections	Delinquent Real	Unpaid Personal
Village -						
General	11.25	\$ 676,125	\$ 72,402	\$ 590,754	\$ 84,118	\$ 1,253
Streets	0.75	45,281	4,827	39,412	5,573	296
Downtown Development						
Authority	1.00	18,064	861	15,619	2,233	212

Details of the property tax calendar are as follows:

Levy date:	December 31 st of prior year
Lien date:	July 1 st
Due date:	July 1 st
Collection date:	July 1 st through September 14 th

On September 15th, the Village Treasurer turns the delinquent real taxes over to the County Treasurer for collection. Uncollected taxes as of September 14th of each year are purchased by the County tax revolving fund and paid to the Village in October of each year.

Property tax revenues are recognized in the fiscal year for which they have been levied and become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay current period liabilities. The current period referred to here is a period of time not exceeding 60 days.

The Village's Taxable Value is presented in detail below:

	Village Taxable Value
Real Property	47,966,509
Personal Property	11,213,500
Downtown Development Authority	18,173,071

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

3. Capital Assets

A summary of the changes in the capital assets of the primary government follows:

Primary Government	Balance 2/28/07	Increases	Decreases/ Transfers	Balance 2/29/08
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 41,421	\$	\$	\$ 41,421
Total capital assets not being depreciated	41,421			41,421
Capital assets, being depreciated				
Buildings	674,099			674,099
Improvements – land and buildings	924,003	67,355		991,358
Equipment and vehicles	975,227	59,292	5,000	1,029,519
Infrastructure	118,728	25,408		144,136
Total capital assets being depreciated	2,692,057	152,055	5,000	2,839,112
Less accumulated depreciation for:				
Buildings	87,677	13,589		101,266
Improvements – land and buildings	375,576	32,238		407,814
Equipment and vehicles	786,286	50,834	5,000	832,120
Infrastructure	2,185	2,712		4,897
Total accumulated depreciation	1,251,724	99,373	5,000	1,346,097
Total capital assets, being depreciated, net	1,440,333	52,682		1,493,015
Governmental activities capital assets, net	\$ 1,481,754	\$ 52,682	\$	\$ 1,534,436
Component Unit:	Balance 2/28/07	Increases	Decreases/ Transfers	Balance 2/29/08
Capital assets, being depreciated				
Improvements – land	\$	\$ 383,713	\$	\$ 383,713

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

3. Capital Assets - continued

	Balance 2/28/07	Increases/ Transfers	Decreases/ Transfers	Balance 2/28/08
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 87,934	\$	\$	\$ 87,934
Construction in progress	1,690		1,690	
Total capital assets not being depreciated	89,624		1,690	87,934
Capital assets, being depreciated				
Buildings	62,661			62,661
Improvements – land and buildings	12,670,083	202,840		12,872,923
Equipment and vehicles	226,023	1,427	18,562	208,888
Total capital assets being depreciated	12,958,767	204,267	18,562	13,144,472
Less accumulated depreciation for:				
Buildings	34,823	1,393		36,216
Improvements – land and buildings	2,959,018	266,671		3,225,689
Equipment and vehicles	195,432	7,588	18,562	184,458
Total accumulated depreciation	3,189,273	275,652	18,562	3,446,363
Total capital assets, being depreciated, net	9,769,494	(71,385)		9,698,109
Business-type activities capital assets, net	<u>\$ 9,859,118</u>	<u>\$ (71,385)</u>	<u>\$ 1,690</u>	<u>\$ 9,786,043</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:	
Legislative	\$ 1,755
General government	16,501
Public Safety	26,288
Public works	51,669
Recreation	614
Other	2,546
Total depreciation expense – governmental activities	<u>\$ 99,373</u>
Business-type activities:	
Water fund	\$ 98,455
Sewer fund	177,197
Total depreciation expense – business-type	<u>\$ 275,652</u>

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities

1. Bonds Payable

Bonds payable at February 29, 2008 are as follows:

Governmental activities:

Downtown Development General Obligation Bonds Payable Series 1996 bearing interest from 5.10% to 7.00% and maturing on September 1, 2011	\$ 90,000
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Business-type activities:

Water Supply and Sewage Disposal System Revenue Bonds – 1996 Issue bearing interest at 5% and maturing on January 1 st of each Year until 2015	\$ 415,000
Water supply and Sewage Disposal System Revenue Bonds – 1996 Issue bearing interest from 3.25% to 7.20% and maturing on January 1 st of each year until 2016	455,000
Sewage Disposal System Revenue Bonds Series 2002. Interest at 4.5% and maturing in 2042	5,009,000
	5,879,000
Less Current Maturities	125,000
Total Business-type activities	\$ 5,754,000

The annual requirements to amortize long-term obligations outstanding as of February 29, 2008 are as follows:

Year ending February 29,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 20,000	\$ 5,082	\$ 125,000	\$ 268,490
2010	20,000	3,982	137,000	261,780
2011	25,000	2,862	139,000	254,890
2012	25,000	1,438	151,000	247,910
2013			163,000	240,790
2014-2018			749,000	1,089,512
2019-2023			700,000	933,752
2024-2028			825,000	765,002
2029-2033			950,000	568,128
2034-2038			1,055,000	343,802
2039-2042			885,000	100,576
	\$ 90,000	\$ 13,364	\$ 5,879,000	\$ 5,074,632

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities – Continued

1. Bonds Payable - continued

For the 1996 Issue, Bond Ordinance No. A-26 requires a quarterly payment to be deposited in a special bond redemption fund until the sum of \$80,000 has been attained and additional quarterly deposits in a bond and interest redemption fund account to cover current principal and interest maturities. The Village currently has \$108,588 in this account.

For the 1996 Issue, Bond Ordinance No. 432 and all provisions of Ordinance No. A-26, except that in the event the Outstanding Bonds are no longer outstanding the provisions requiring the consent of Farmers Home Administration no longer apply. Bond ordinance No. A-26 requires the Bond Reserve Account be further increased by the quarterly deposit of funds beginning July 1, 1996 and ending April 1, 2008 until another sum of \$80,000 has been attained. The Village currently has \$115,196 in this account.

Changes in bonds payable were as follows:

	Balance 2/28/07	Additions	Payments	Balance 2/29/08	Due Within One Year
<u>Governmental Activities:</u>					
1996 Downtown Development Bonds (Limited Tax General Obligation Bonds)	\$ 110,000	\$	\$ 20,000	\$ 90,000	\$ 20,000
<u>Business-type Activities:</u>					
1996 Water Supply and Sewage Disposal Revenue Bonds	\$ 455,000	\$	\$ 40,000	\$ 415,000	\$ 40,000
1996 Water Supply and Sewage Disposal Revenue Bonds	510,000		55,000	455,000	55,000
2003 Sewage Disposal System Revenue Bonds	5,037,000		28,000	5,009,000	30,000
	\$ 6,002,000	\$	\$ 123,000	\$ 5,879,000	\$ 125,000

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities – Continued

2. Notes Payable

Governmental Activities:

Note payable – Michigan Department of Transportation, annual payments of \$6,951 including interest at 4.41%. Matures July 2009	\$ 13,045
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Business-type Activities:

Note payable – Michigan Economic Development Corporation	
Principal and interest payments commence on May 1, 2008. As of February 29, 2008, 62 credits have been earned, reducing the loan by \$103,175.	83,523

Note payable – Kalkaska County Industrial Development Corporation, repayment based on sale of lots in the Kalkaska Industrial Park. Upon the sale of each lot 30% of the net proceeds shall be paid to the mortgagor until 70% of the purchase price has been paid, then 100% of the net sales price shall be paid to the mortgagor until paid in full. There will be no interest charged on any part of the unpaid balance	22,279
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	\$ 118,847
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The Note payable – MEDC does not amortize until May 1, 2008. Note payable (Michigan Department of Transportation) matures as follows:

2009	\$	6,365
2010		6,680
	\$	13,045

Changes in notes payable were as follows:

	Balance 2/28/07	Adj.	Payments	Balance 2/28/08	Due Within One Year
<u>Governmental Activities:</u>					
Note Payable: Michigan					
Dept. of Transportation	\$ 19,236	\$	\$ (6,191)	\$ 13,045	\$ 6,191
 <u>Business-type Activities:</u>					
Note Payable: Mich. Economic					
Development Corporation	\$ 206,350	\$ (103,175)	\$ (19,652)	\$ 83,523	\$ 19,652
Note Payable: Kalkaska County					
Industrial Development Corp.	22,279			22,279	
	\$ 228,629	\$ (103,175)	\$ (19,652)	\$ 105,802	\$ 19,652

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities - continued

3. Capital lease payable

The Village has one capital lease payable outstanding as of February 29, 2008. The amortization expense is reported with depreciation expense in the Sewer Fund. The asset is reported with the Sewer fund Improvements.

Assets under capital lease payable	\$ 124,430
Accumulated amortization as of 2/29/08	<u>30,416</u>
Net assets under capital lease	<u><u>\$ 94,014</u></u>

The liability for the capital lease is recorded in the Sewer fund.

Capital lease payable	<u><u>\$ 18,525</u></u>
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Future minimum lease payments are as follows:

2009	18,525
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4. Risk management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League & Property Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation.

This policy complies with Act 294, P.A. 1972, as amended.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

C. Interfund Transactions

Following is a description of the basic types of interfund transactions made during the year and the related accounting policy:

Transactions for services rendered or facilities provided; these transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them; these transactions are recorded as transfers in and transfers out.

Interfund receivables or payables as of February 29, 2008 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 115,830	\$ 509,396
Major Street Fund	153,640	
Local Street Fund	101,760	645
Justice Training Fund	346	
Debt Service Fund	645	
Sewer Fund	253,400	
Post Retirement Benefit Fund		<u>115,580</u>
	<u>\$ 625,621</u>	<u>\$ 625,621</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: SEGMENT INFORMATION FOR THE ENTERPRISE FUNDS

The Village maintains two Enterprise Fund which provides water and sewer services. Segment information for the year ended February 29, 2008 is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues (including interest)	\$ 430,945	\$ 788,745
Depreciation	98,455	177,197
Operating income (loss)	49,893	246,525
Change in net assets	97,784	76,584
Property, plant, and equipment		
Additions	1,428	201,151
Net working capital	249,323	724,778
Total assets	3,372,620	7,973,703
Bonds outstanding	364,800	5,514,200
Net assets	2,970,927	2,320,501

NOTE 5: ACCUMULATED UNPAID SICK PAY BENEFIT AMOUNTS

The Village policy allows each employee to accumulate the equivalent of a maximum sick time of 600 hours. At current rates, the Village, as of February 29, 2008, had accrued \$39,178 of sick and vacation pay which is recorded in the Government-wide financial statements.

NOTE 6: EMPLOYEES RETIREMENT SYSTEM

A. Plan Description

The Village has an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts 1984, as amended, and the Constitution of the State of Michigan. The Village has no administrative responsibility for the plan. The Michigan Municipal Retirement System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing Municipal Employee Retirement Systems of Michigan, Lansing, Michigan 48917 or calling (800) 767-6377.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 6: EMPLOYEES RETIREMENT SYSTEM - Continued

B. Funding Policy

The plan provides for vesting of benefits after 10 years of credited service for all full-time employees. Effective March 1, 1999 all full-time police officers are able to obtain tenure after six years of full-time service, excluding the police chief. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

The retirement allowance is reduced ½% of 1% for each complete month retirement benefits are available. The plan provides that the employer contribute amounts necessary to fund the actuarially determined benefits. The Village makes employer contributions in accordance with funding requirements determined by MERS' actuary. The MERS' actuary uses the entry age normal actuarial cost method.

C. Annual Pension Costs

The Village's pension cost for the fiscal year ending February 29, 2008, 2007 and 2006 was \$146,542, \$177,205 and \$100,611 respectively. The required contribution was determined as part of December 31, 2007 actuarial valuation using the entry age normal actuarial cost method.

The significant actuarial assumptions to be used to compute the actuarial accrued liabilities are as follows: (1) the entry age normal actuarial cost method of valuation was used in determining age and service benefit liabilities and normal cost; (2) an 8% rate of return on investment of present and future assets was used based on estimated long-yield considering (a) the nature and mix of current and expected investments; and (b) the basis used to value those assets; (3) projected salary increases are based on 4.5% raises for merit, seniority, and inflation rate allowances. Benefits will not increase after retirement except that some participants will receive cost of living allowances. Unfunded accrued liabilities are amortized over 40 year period reduced by one year until it reaches 30.

D. Trend Information

	2008	2007	2006
Actuarial value of assets	\$ 2,736,890	\$ 2,563,989	\$ 2,377,156
Actuarial Accrued Liability (entry age)	4,047,439	3,616,647	3,585,994
Unfunded Actuarial Accrued Liability (UAAL)	1,310,549	1,052,658	1,208,838
Funded Ratio	68%	71%	66%
Covered Payroll	464,180	535,861	512,902
UAAL as a percent of covered payroll	35.42%	50.91%	42.43%

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 7: POSTRETIREMENT PLAN OTHER THAN PENSIONS

The Village has a postretirement plan other than pensions for health insurance coverage. For Permanent employees - salaries, hourly and appointed the plan provides as follows:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive family health insurance coverage for a period of three years - paid in full by the Village. Specifically named employees are to receive lifetime hospitalization on both employee and spouse, paid in full by the Village in addition to the three (3) years family coverage and applies only to employees who have worked the required number of years and retire at age 55 or older. In case the eligible employee predeceases the spouse, the spouse will continue to receive this benefit for their lifetime.

For Police Department employees, the plan provides:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive existing health insurance paid in full by the Village for life.

The Village has established a separate fund to account for the financing of the plan. Interest earned on these monies are being maintained in the Fund. The Fund had accumulated \$398,060 as of February 29, 2008. Any amounts not available in the Fund to meet costs will be the general obligation of the Village. The Village has not accrued any liability under the plan at February 29, 2008. At February 29, 2008, the Village had five retirees participating in the plan. There were no expenses incurred or reflected, by the Village, in the financial statements for the year ended February 29, 2008.

NOTE 8: EMPLOYEE BENEFIT PROGRAM

The Village adopted an employee benefit program effective October 1, 1990. The intention of the Village is that the Plan qualify as a "Cafeteria Plan" within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an Employee elects to receive under the Plan be includable or excludable from the Employee's income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended.

Each eligible employee may elect to have the amount of their employer contributions applied to any one or more of a health insurance and/or cash benefit.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 631,300	\$ 714,820	\$ 606,933	\$ (107,887)
Licenses and permits	3,700	3,700	1,925	(1,775)
State grants	223,500	195,620	187,476	(8,144)
Contributions from local units	9,310	9,310	5,900	(3,410)
Charges for services	19,500	19,500	14,266	(5,234)
Fines	38,000	38,000	11,122	(26,878)
Interest, rents, royalties	100,580	133,680	91,684	(41,996)
Other	1,800	1,800		(1,800)
TOTAL REVENUES	1,027,690	1,116,430	919,306	(197,124)
EXPENDITURES:				
Current:				
Legislative	87,654	106,054	74,788	31,266
General government	175,512	173,841	138,578	35,263
Public safety	543,516	508,616	499,240	9,376
Public works	86,135	103,215	93,267	9,948
Recreation	24,544	24,844	84,758	(59,914)
Other	110,329	124,050	103,758	20,292
Debt service:				
Principal		6,192	6,191	1
Interest		763	760	3
TOTAL EXPENDITURES	1,027,690	1,047,575	1,001,340	46,235
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		68,855	(82,034)	(150,889)
OTHER FINANCING SOURCES (USES):				
Sale of village property				
Operating transfers in (out)				
TOTAL OTHER FINANCING SOURCES (USES)				
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$</u>	<u>\$ 68,855</u>	(82,034)	<u>\$ (150,889)</u>
FUND BALANCE, beginning			(197,617)	
FUND BALANCE, ending			<u>\$ (279,651)</u>	

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
State grants	\$ 160,000	\$ 160,000	\$ 149,074	\$ (10,926)
Charges for services	6,000	8,800	6,942	(1,858)
Interest	9,800	9,800	5,582	(4,218)
Other	100	100		(100)
TOTAL REVENUES	175,900	178,700	161,598	(17,102)
EXPENDITURES:				
Public works:				
Highways, streets and bridges:				
Routine maintenance	40,402	39,002	33,237	5,765
Street maintenance	43,558	48,438	45,198	3,240
Traffic service	13,221	8,021	7,149	872
Winter maintenance	53,981	70,617	64,467	6,150
Roadside parks	6,825	3,725	1,474	2,251
Administrative	17,913	17,343	13,115	4,228
TOTAL EXPENDITURES	175,900	187,146	164,640	22,506
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		(8,446)	(3,042)	5,404
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)				
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$	\$ (8,446)	(3,042)	\$ 5,404
FUND BALANCE, beginning			390,285	
FUND BALANCE, ending			\$ 387,243	

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 45,373	\$ 48,218	\$ 40,308	\$ (7,910)
State grants	58,000	58,000	52,419	(5,581)
Charges for services	6,000	6,000		(6,000)
Interest	3,500	6,500	4,425	(2,075)
Other	10,000	10,000		(10,000)
TOTAL REVENUES	122,873	128,718	97,152	(31,566)
EXPENDITURES:				
Public works:				
Highways, streets and bridges:				
Routine maintenance	33,847	31,846	25,061	6,785
Street maintenance	43,100	41,460	38,702	2,758
Traffic service	4,225	4,225	1,555	2,670
Winter maintenance	25,624	36,903	38,249	(1,346)
Administrative	16,077	16,907	13,185	3,722
TOTAL EXPENDITURES	122,873	131,341	116,752	14,589
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		(2,623)	(19,600)	(16,977)
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)				
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$	\$ (2,623)	(19,600)	\$ (16,977)
FUND BALANCE, beginning			196,197	
FUND BALANCE, ending			\$ 176,597	

VILLAGE OF KALKASKA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – BUDGETARY COMPARISON SCHEDULES

The Village of Kalkaska is not legally required to present budgetary information for debt service funds. Accordingly, the budgetary comparison schedule for the DDA Debt Service fund is not required.

SUPPLEMENTARY DATA SECTION

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 714,820	\$ 606,933	\$ (107,887)
Licenses and permits	3,700	1,925	(1,775)
State grants	195,620	187,476	(8,144)
Contributions from local units	9,310	5,900	(3,410)
Charges for services	19,500	14,266	(5,234)
Fines	38,000	11,122	(26,878)
Interest, rents, royalties	133,680	91,684	(41,996)
Other	1,800		(1,800)
TOTAL REVENUES	1,116,430	919,306	(197,124)
EXPENDITURES:			
Legislative:			
Village Council	106,054	74,788	31,266
General government:			
Administrative	101,107	79,317	21,790
Municipal building	72,534	59,261	13,273
Other buildings & ground activities	200		200
Public safety:			
Police department	508,416	499,072	9,344
Fire	200	168	32
Public works	103,215	93,267	9,948
Recreation:			
Recreation			
Parks	24,844	84,758	(59,914)
Other:			
Insurance and bonds	37,694	21,174	16,520
Parking lots	42,584	42,720	(136)
Airport	43,772	39,864	3,908
Debt service:			
Principal	6,192	6,191	1
Interest	763	760	3
TOTAL EXPENDITURES	1,047,575	1,001,340	46,235
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	68,855	(82,034)	(150,889)

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008
(CONTINUED)

	Amended Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (from previous page)	\$ 68,855	\$ (82,034)	\$ (150,889)
OTHER FINANCING SOURCES (USES):			
Sale of village property			
Operating transfers in (out)			
TOTAL OTHER FINANCING SOURCES (USES)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	<u>\$ 68,855</u>	(82,034)	<u>\$ (150,889)</u>
FUND BALANCE, beginning		<u>(197,617)</u>	
FUND BALANCE, ending		<u>\$ (279,651)</u>	

**VILLAGE OF KALKASKA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FEBRUARY 29, 2008**

		Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
		Drug Enforcement	Justice Training	Total	Village Improvement	
ASSETS						
Cash		\$ 2,323	\$ 2,702	\$ 5,025	\$ 23,941	\$ 28,966
Accounts receivable			520	520		520
Due from other funds			346	346		346
TOTAL ASSETS		<u>\$ 2,323</u>	<u>\$ 3,568</u>	<u>\$ 5,891</u>	<u>\$ 23,941</u>	<u>\$ 29,832</u>
LIABILITIES & FUND BALANCE						
LIABILITIES						
Accounts payable		\$	\$	\$	\$	\$
Due to other funds						
TOTAL LIABILITIES						
FUND BALANCE						
Unreserved:						
Undesignated		2,323	3,568	5,891	23,941	29,832
TOTAL FUND BALANCE		<u>2,323</u>	<u>3,568</u>	<u>5,891</u>	<u>23,941</u>	<u>29,832</u>
TOTAL LIABILITIES & FUND BALANCE		<u>\$ 2,323</u>	<u>\$ 3,568</u>	<u>\$ 5,891</u>	<u>\$ 23,941</u>	<u>\$ 29,832</u>

**VILLAGE OF KALKASKA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008**

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Drug Enforcement	Justice Training	Total	Village Improvement	
REVENUES:					
State grants	\$	\$ 1,148	\$ 1,148	\$	\$ 1,148
Interest					
Other revenue	180		180		180
TOTAL REVENUES	180	1,148	1,328		1,328
EXPENDITURES:					
Public safety & police	1,155	975	2,130		2,130
TOTAL EXPENDITURES	1,155	975	2,130		2,130
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(975)	173	(802)		(802)
FUND BALANCE, beginning	3,298	3,395	6,693	23,941	30,634
FUND BALANCE, ending	<u>\$ 2,323</u>	<u>\$ 3,568</u>	<u>\$ 5,891</u>	<u>\$ 23,941</u>	<u>\$ 29,832</u>

VILLAGE OF KALKASKA
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY - A COMPONENT UNIT
FOR THE YEAR ENDED FEBRUARY 29, 2008

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 131,630	\$ 140,317	\$ 8,687
Interest	15,000	9,703	(5,297)
State grants		239,214	239,214
Other revenue	1,275	255	(1,020)
	<u>147,905</u>	<u>389,489</u>	<u>241,584</u>
TOTAL REVENUES	<u>147,905</u>	<u>389,489</u>	<u>241,584</u>
EXPENDITURES:			
Public works:			
Highways, streets, and bridges:			
Administration	73,233	406,889	(333,656)
	<u>73,233</u>	<u>406,889</u>	<u>(333,656)</u>
TOTAL EXPENDITURES	<u>73,233</u>	<u>406,889</u>	<u>(333,656)</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	74,672	(17,400)	(92,072)
	<u>74,672</u>	<u>(17,400)</u>	<u>(92,072)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in (out)			
	<u></u>	<u></u>	<u></u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES AND OTHER FINANCING	\$ 74,672	(17,400)	\$ (92,072)
	<u>\$ 74,672</u>	<u>(17,400)</u>	<u>\$ (92,072)</u>
FUND BALANCE, beginning		531,592	
		<u>531,592</u>	
FUND BALANCE, ending		\$ 514,192	
		<u><u>\$ 514,192</u></u>	

VILLAGE OF KALKASKA
SCHEDULE OF REVENUE BONDS PAYABLE
1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008

Schedule A

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.25% to 7.20%	June 1, 1996	NBD	\$740,000

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>January 1,</u>	<u>Interest Due July 1,</u>	<u>Total</u>
2008	\$	\$	\$ 12,430	\$ 12,430
2009	40,000	12,430	11,250	63,680
2010	45,000	11,250	9,900	66,150
2011	45,000	9,900	8,550	63,450
2012	50,000	8,550	7,050	65,600
2013	55,000	7,050	5,400	67,450
2014	55,000	5,400	3,750	64,150
2015	60,000	3,750	1,950	65,700
2016	65,000	1,950		66,950
	<u>\$ 415,000</u>	<u>\$ 60,280</u>	<u>\$ 60,280</u>	<u>\$ 535,560</u>

**VILLAGE OF KALKASKA
SCHEDULE OF WATER AND SEWAGE DISPOSAL
SYSTEM REVENUE BONDS 1975 ISSUE
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008**

Schedule B

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS 1975

<u>Bond Numbers</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>February 29, 2008</u>
	01/01/96	\$1,350,000			
180-190			5%	01/01/09	55,000
191-202			5%	01/01/10	60,000
203-214			5%	01/01/11	60,000
215-227			5%	01/01/12	65,000
229-241			5%	01/01/13	70,000
242-255			5%	01/01/14	70,000
256-270			5%	01/01/15	<u>75,000</u>
Total					<u>\$ 455,000</u>

VILLAGE OF KALKASKA
SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE
1996 DOWNTOWN DEVELOPMENT BONDS
(LIMITED TAX GENERAL OBLIGATION)
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008

Schedule C

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.10% to 7.00%	May 1, 1996	NBD	\$240,000

<u>Maturity September 1,</u>	<u>Principal Amount</u>	<u>March 1,</u>	<u>Interest Due September 1,</u>	<u>Total</u>
2008	\$ 20,000	\$ 2,541	\$ 2,541	\$ 25,082
2009	20,000	1,991	1,991	23,982
2010	25,000	1,431	1,431	27,862
2011	<u>25,000</u>	<u>719</u>	<u>719</u>	<u>26,438</u>
	<u>\$ 90,000</u>	<u>\$ 6,682</u>	<u>\$ 6,682</u>	<u>\$ 103,364</u>

VILLAGE OF KALKASKA
SCHEDULE OF SEWAGE DISPOSAL SYSTEM REVENUE BONDS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008

Schedule D

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
4.5%	July 1, 2006	RDA	\$ 5,154,000

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>Interest Due</u>		<u>Total</u>
		<u>July 1,</u>	<u>January 1,</u>	
2009	\$ 30,000	\$ 112,815	\$ 112,815	\$ 255,630
2010	32,000	112,140	112,140	256,280
2011	34,000	111,420	111,420	256,840
2012	36,000	110,655	110,655	257,310
2013	38,000	109,845	109,845	257,690
2014-2018	424,000	531,406	531,406	1,486,812
2019-2023	700,000	466,876	466,876	1,633,752
2024-2028	825,000	382,501	382,501	1,590,002
2029-2033	950,000	284,064	284,064	1,518,128
2034-2038	1,055,000	171,901	171,901	1,398,802
2039-2042	885,000	50,288	50,288	985,576
	<u>\$ 5,009,000</u>	<u>\$ 2,443,911</u>	<u>\$ 2,443,911</u>	<u>\$ 9,896,822</u>



**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Village Council
Village of Kalkaska
Kalkaska, Michigan

We have audited the basic financial statements of the Village of Kalkaska for the year ended February 29, 2008, and have issued our report thereon dated August 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Kalkaska's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Kalkaska's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Kalkaska's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Kalkaska's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Kalkaska's financial statements that is more than inconsequential will not be prevented or detected by the Village of Kalkaska internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

FINDING 2008-01

- Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes. (i.e., external financial reporting.)
- Conditions: As is the case with many governmental units, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the County's *internal* controls.
- Cause: This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining necessary training and expertise required for the Village to perform this task internally.
- Effect: As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials:

The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of its annual financial statements in accordance with GAAP, and determined that it is in the best interest of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Village of Kalkaska internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and other matters

As part of obtaining reasonable assurance about whether Village of Kalkaska's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village was not in compliance with its operating budget in General Fund and the Local Street Fund.

We noted certain matters that we reported to the management of Village of Kalkaska in a separate Comments and Recommendations letter dated August 15, 2008.

This report is intended solely for the information and use of the Village Council, management, the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants
August 15, 2008



August 15, 2008

President and Members of the
Village Council of the Village of Kalkaska
Kalkaska, MI

In planning and performing our audit of the basic financial statements of Village of Kalkaska for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Village of Kalkaska's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

During our audit, we noted the following control deficiencies that we do not consider to be a significant deficiency.

Tax Revenue and DDA Fund

The Village needs to improve its procedure for recording tax revenue for amounts captured by the DDA fund. The Village does not properly allocate the amounts captured and thus adjustments need to be made during the audit process. This causes the General and Street fund to be overcollected during the year. This provides an inaccurate picture of the Village's tax collections when being reviewed during the year.

Other Post-Employment Benefits

The Village of Kalkaska has other post-employment benefits, Village paid retiree health insurance premiums, that meet the requirements established under Government Accounting Standards Board Statement (GASB) No. 45.

Effective during 2008, GASB Statement No. 45 requires governmental units to determine and record the unfunded liability related to other post-employment benefits. We recommend that the County obtain an actuarial report or use an authorized alternative method to determine the unfunded liability related to other post-employment benefits.

This report is intended solely for the information and use of the Board of Commissioners, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants